

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2021-7-G**

IN RE: Application of Piedmont Natural Gas )	
Company, Incorporated to Have the Terms of )	
the Natural Gas Rate Stabilization Act Apply )	<b>SETTLEMENT</b>
to the Company's Rates and Charges for Gas )	<b>AGREEMENT</b>
Distribution Services )	

This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("Piedmont" or the "Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the Public Service Commission of South Carolina ("Commission") issued Order Nos. 2005-491 and 2005-567 in Docket No. 2005-125-G to establish a baseline for Piedmont under the Natural Gas Rate Stabilization Act (the "RSA" or "Act");

WHEREAS, in accordance with S.C. Code Ann. §§ 58-5-430 and 58-5-440 of the Act, Piedmont filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2021, for the Twelve-Month Period of April 1, 2020, through March 31, 2021 ("Review Period");

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B);

WHEREAS, on September 1, 2021, ORS filed its own report and recommendation with the Commission based on its review of the Company's Quarterly Monitoring Report for the Review Period that ended March 31, 2021;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and,

WHEREAS, the Parties have determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree that the following are the only attachments to this Settlement Agreement:

- a. Settlement Schedule 1 (Net Operating Income and Rate of Return);
- b. Settlement Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and
- c. Settlement Schedule 3 (Weighted Cost of Capital).

2. The Parties agree that Piedmont will adopt ORS's accounting adjustment as set forth in this Settlement Agreement's attachment Schedule 2.

3. Beginning with the first billing cycle of November 2021, Piedmont will implement rates for the Twelve-Month Period as calculated based on a 9.8% Return on Equity ("ROE") instead of the 12.6% ROE approved by Commission Order Nos. 2002-761, 2005-491, and 2005-567.

4. The Parties agree that, as a result of this Settlement Agreement and the resulting rates, South Carolina ratepayers will realize an increase in current margin rates totaling \$7,441,562 based upon: (a) the accounting adjustments proposed by ORS and adopted by Piedmont, (b) a Debt/Equity Ratio of 47.80%/52.20%, and (c) the agreement of Piedmont to implement rates based

on a 9.8% ROE. This equates to a reduction of \$8,328,408 for South Carolina ratepayers when compared to rates calculated at the authorized 12.6% ROE.

5. The Parties agree to an increase in revenue of \$3,323,422, due to a demand cost under-recovery.

6. This Settlement Agreement does not alter or remove the commitment of the Parties to the terms described in paragraph numbers 6 and 7 of the Settlement Agreement filed in Docket No. 2019-7-G and paragraph number 6 of the Settlement Agreement filed in Docket No. 2020-7-G, both of which were approved and adopted by order of the Commission in those dockets. Those paragraphs specifically provided that:

- a. Piedmont will file a general rate case proceeding with the Commission no later than April 1, 2022; and
- b. Piedmont shall provide ORS with the following information on a going forward basis:
  - i. Concurrent with the Company's future RSA report filings for the period ended March 31 of each year, Piedmont shall report to ORS the employees whose incentive pay has been capitalized and included in rate base and the amount thereof.
  - ii. Concurrent with the Company's future RSA report filings for the period ended March 31 of each year, Piedmont shall report to ORS all the per books non-allowable expenses for the annual review period.
  - iii. By November 30 and May 31 of each year, Piedmont shall provide ORS with general ledger expense detail for the respective six-month prior periods ending September 30 and March 31 for RSA non-allowable expense testing purposes.

- iv. The Company will work in good faith with ORS to improve the transparency and reporting of costs allocated to the Company from Duke Energy Business Services (DEBS), or other subsidiaries of Duke Energy in order to facilitate ORS's ability to efficiently audit such cost allocations in the future.

7. With respect to litigation expenses that incurred in the test year related to Case Numbers 2018-CP-04-00900 and 2020-CP-04-01350 (collectively "Cases") pending in the Court of Common Pleas, Tenth Judicial Circuit, Anderson, South Carolina, the Parties agree as follows:

- a. ORS does not oppose the Company's request in this proceeding for recovery of litigation expenses related to the Cases;
- b. ORS retains the right to, and may, oppose the Company's request for recovery of additional litigation expenses related to the Cases in future proceedings;
- c. The Company will not seek recovery from customers in any future proceeding of any adverse judgment(s) that may be rendered against it in one or both of the Cases;
- d. If the Company recovers any amounts in or related to the Cases from a third-party, through an indemnification or other similar claim, the Company will use such amounts to offset customer expenses in its next RSA proceeding or general rate case, as applicable.

8. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable, and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts before any reviewing court in the event of appeal to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein; however, ORS shall not utilize social media to defend a Commission order.

9. The Parties agree that signing this Settlement Agreement, (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery, or rates of return that any Party may seek or advocate in any future proceeding. The Parties agree that this Settlement Agreement is in the public interest when considered as a whole. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

10. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

11. This Settlement Agreement shall be interpreted according to South Carolina law.

12. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

***[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]***

Representing the South Carolina Office of Regulatory Staff



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**Representing Piedmont Natural Gas Company, Incorporated**



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## Settlement Schedule 1

Piedmont Natural Gas Company  
South Carolina Operations  
Net Operating Income and Rate of Return  
For the Twelve-Month Period Ended March 31, 2021  
Docket No. 2021-7-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand Cost Under(Over) Recovery	(6) Total After Proposed Rates
<u>Operating Revenues</u>						
1 Sale and Transportation of Gas	\$ 147,060,368	\$ (2,470,026)	(1) \$ 144,590,342	\$ 7,441,562	(11) \$ 3,323,422	(17) \$ 155,355,326
2 Other Operating Revenues	310,458	0	310,458	0	0	310,458
3 Total Operating Revenues	<u>147,370,826</u>	<u>(2,470,026)</u>	<u>144,900,800</u>	<u>7,441,562</u>	<u>3,323,422</u>	<u>155,665,784</u>
<u>Operating Expenses</u>						
4 Cost of Gas	55,032,332	(2,774,329)	(2) 52,258,003	0	3,294,322	(18) 55,552,325
5 Operations and Maintenance	33,653,252	(195,740)	(3) 33,457,512	20,351	9,089	(19) 33,486,952
6 Depreciation	16,635,076	2,406,118	(4) 19,041,194	0	0	19,041,194
7 General Taxes	9,695,579	(168,198)	(5) 9,527,381	44,808	20,011	(20) 9,592,200
8 State Income Taxes	(179,125)	1,292,377	(6) 1,113,252	368,820	0	1,482,072
9 Federal Income Taxes	3,694,669	132,746	(7) 3,827,415	1,471,593	0	5,299,008
10 Amortization of Investment Tax Credits	59,449	0	59,449	0	0	59,449
11 Total Operating Expenses	<u>118,591,232</u>	<u>692,974</u>	<u>119,284,206</u>	<u>1,905,572</u>	<u>3,323,422</u>	<u>124,513,200</u>
12 Net Operating Income	28,779,594	(3,163,000)	25,616,594	5,535,990	0	31,152,584
13 Interest on Customers' Deposits	(95,274)	0	(95,274)	0	0	(95,274)
14 Amortization of Debt Redemption Premium	0	0	(8) 0	0	0	0
15 Allowance for Funds Used During Construction	571,469	0	571,469	0	0	571,469
16 Customer Growth	328,087	(36,058)	(9) 292,029	63,110	(16) 0	355,139
17 Net Operating Income for Return	<u>\$ 29,583,876</u>	<u>\$ (3,199,058)</u>	<u>\$ 26,384,818</u>	<u>\$ 5,599,100</u>	<u>\$ 0</u>	<u>\$ 31,983,918</u>
<u>Rate Base:</u>						
18 Plant in Service	\$ 744,208,639	\$ 0	\$ 744,208,639			\$ 744,208,639
19 Accumulated Depreciation	(263,882,506)	0	(263,882,506)			(263,882,506)
20 Net Plant in Service	480,326,133	0	480,326,133			480,326,133
Add:						
21 Construction Work in Progress	68,646,047	0	68,646,047			68,646,047
22 Materials and Supplies	6,135,164	0	6,135,164			6,135,164
23 Cash Working Capital	6,204	(24,467)	(10) (18,263)			(18,263)
Deduct:						
24 Customers' Advances	0	0	0			0
25 Customers' Deposits	2,781,037	0	2,781,037			2,781,037
26 Accumulated Deferred Income Taxes	99,634,730	0	99,634,730			99,634,730
27 Unclaimed Funds	17,726	0	17,726			17,726
28 Total Rate Base:	<u>\$ 452,680,055</u>	<u>\$ (24,467)</u>	<u>\$ 452,655,588</u>			<u>\$ 452,655,588</u>
29 Rate of Return	<u>6.54%</u>		<u>5.83%</u>			<u>7.07%</u>
30 Return on Common Equity	<u>8.77%</u>		<u>7.43%</u>			<u>9.80%</u>



## Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
For the Twelve-Month Period Ended March 31, 2021  
Docket No. 2021-7-G

Line No.	Description	Per ORS	Per Piedmont
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust revenues to the going-level basis.	\$ (2,470,026)	\$ (2,470,026)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ (2,470,026)</u>	<u>\$ (2,470,026)</u>
2	<u>Cost of Gas</u>		
	To adjust cost of gas to the going-level basis.	\$ (2,774,329)	\$ (2,774,329)
	<u>Total Cost of Gas</u>	<u>\$ (2,774,329)</u>	<u>\$ (2,774,329)</u>
3	<u>Operations and Maintenance Expenses</u>		
	a. To adjust payroll expenses to the going-level basis.	\$ 283,884	\$ 283,884
	b. To adjust pension and OPEB expenses to the going-level basis.	\$ 52,945	\$ 52,945
	c. To adjust employee retirement and welfare benefit expenses to the going-level basis.	\$ 303,297	\$ 303,297
	d. To adjust expenses for the provision for uncollectible accounts to reflect actual net write-offs over a three-year period.	\$ (236,202)	\$ (236,202)
	e. To adjust expenses for allocations to non-utility activities.	\$ (14,677)	\$ (14,677)
	f. To adjust LTI - equity incentives expenses to the going-level basis	\$ -	\$ 15,427
	g. To adjust STI - short term incentives expenses to the going-level basis.	\$ -	\$ 316,088
	h. To adjust lease expenses to the going-level basis.	\$ 3,840	\$ 3,840
	i. To adjust expenses for the South Carolina assessment fee.	\$ (56,399)	\$ (58,877)
	j. To adjust expenses for amortization of deferred SC environmental expense.	\$ 315,101	\$ 315,101
	k. To adjust expenses for Gas Technology Institute (GTI) program dues expense.	\$ -	\$ -
	l. To adjust expenses for lobbying as non-allowable for ratemaking purposes.	\$ (4,465)	\$ (4,465)
	m. To adjust expenses for 50% of aviation as non-allowable for ratemaking purposes.	\$ (63,844)	\$ (63,844)
	n. To adjust expenses for other non-allowables for ratemaking purposes.	\$ (445,193)	\$ (395,193)
	o. To adjust the Company's LTI & STI to remove amounts associated with Earnings Per Share and Total Shareholder Return and remove 50% of the Company's four highest compensated executives' base pay and benefits.	\$ (175,671)	\$ (191,868)

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South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
For the Twelve-Month Period Ended March 31, 2021  
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<u>Line No.</u>	<u>Description</u>	<u>Per ORS</u>	<u>Per Piedmont</u>
p.	To adjust expenses for customer payment fees to the going level basis	\$ (158,356)	\$ 82,329
	<u>Total Operations and Maintenance Expense</u>	\$ (195,740)	\$ 407,785
4	<u>Depreciation Expense</u>		
	To adjust depreciation expense to the going-level basis using the most current depreciation study rates.	\$ 2,406,118	\$ 2,317,015
	<u>Total Depreciation Expense</u>	\$ 2,406,118	\$ 2,317,015
5	<u>General Taxes</u>		
a.	To adjust property taxes to the going-level basis.	\$ (191,839)	\$ (191,839)
b.	To adjust franchise tax and gross receipts tax expense to the going-level basis.	\$ 30,207	\$ 30,207
c.	To adjust payroll tax expenses to the going-level basis.	\$ 21,717	\$ 47,078
d.	To adjust the utility license fee (rate of .302132%) to the going-level basis.	\$ (7,410)	\$ (7,410)
e.	To adjust assessment fee to the going-level basis	\$ (7,463)	\$ (7,524)
f.	To adjust payroll taxes based upon ORS adjustment 3o.	\$ (13,410)	\$ -
	<u>Total General Taxes</u>	\$ (168,198)	\$ (129,488)
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income for accounting and pro forma adjustments.	\$ 1,292,377	\$ 1,270,971
	<u>Total State Income Taxes</u>	\$ 1,292,377	\$ 1,270,971
7	<u>Federal Income Taxes</u>		
a.	To adjust federal income taxes (rate of 21%) to reflect the impact on income for accounting and pro forma adjustments.	\$ 747,205	\$ 661,798
b.	To adjust expenses for the 2017 tax reform EDIT giveback to customers.	\$ (614,459)	\$ (614,459)
	<u>Total Federal Income Taxes</u>	\$ 132,746	\$ 47,339
8	<u>Amortization of Debt Redemption Premium</u>		
	To adjust net operating income for amortization of debt redemption premium.	\$ -	\$ -
	<u>Total Amortization of Debt Redemption Premium</u>	\$ -	\$ -

## Settlement Schedule 2

Piedmont Natural Gas Company  
South Carolina Operations  
Explanations of Accounting and Pro Forma Adjustments  
For the Twelve-Month Period Ended March 31, 2021  
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<u>Line No.</u>	<u>Description</u>	<u>Per ORS</u>	<u>Per Piedmont</u>
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of 1.14%) following the adjustments to operating revenues and expenses.	\$ (36,058)	\$ (41,146)
	<u>Total Customer Growth</u>	\$ (36,058)	\$ (41,146)
10	<u>Cash Working Capital</u>		
	To adjust cash working capital following the pro forma adjustments to operations and maintenance expenses (rate of 12.5%).	\$ (24,467)	\$ 50,973
	<u>Total Cash Working Capital</u>	\$ (24,467)	\$ 50,973
11	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust the revenue requirement for the sale and transportation of gas for the proposed margin increase.	\$ 7,441,562	\$ 17,282,002
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 7,441,562	\$ 17,282,002
12	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (rate of .27347%) following the adjustment to operating revenues.	\$ 20,351	\$ 47,262
	<u>Total Operations and Maintenance Expenses</u>	\$ 20,351	\$ 47,262
13	<u>General Taxes</u>		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .302132%) following the adjustment to operating revenues.	\$ 44,808	\$ 104,489
	<u>Total General Taxes</u>	\$ 44,808	\$ 104,489
14	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the adjustments to operating revenues and expenses.	\$ 368,820	\$ 856,513
	<u>Total State Income Taxes</u>	\$ 368,820	\$ 856,513
15	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 21%) to reflect the impact on income from the adjustments to operating revenues, expenses and state income taxes.	\$ 1,471,593	\$ 3,417,485
	<u>Total Federal Income Taxes</u>	\$ 1,471,593	\$ 3,417,485

## Settlement Schedule 2

Piedmont Natural Gas Company  
 South Carolina Operations  
 Explanations of Accounting and Pro Forma Adjustments  
 For the Twelve-Month Period Ended March 31, 2021  
 Docket No. 2021-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per ORS</u>	<u>Per Piedmont</u>
16	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of 1.14%) following the adjustments to operating revenues and expenses.	\$ 63,110	\$ 146,561
	<u>Total Customer Growth</u>	\$ 63,110	\$ 146,561
17	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust the revenue requirement for the sale and transportation of gas associated with demand cost recovery.	\$ 3,323,422	\$ 3,323,505
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 3,323,422	\$ 3,323,505
18	<u>Cost of Gas</u>		
	To adjust cost of gas for the demand cost recovery.	\$ 3,294,322	\$ 3,294,322
	<u>Total Cost of Gas</u>	\$ 3,294,322	\$ 3,294,322
19	<u>Operations and Maintenance Expenses</u>		
	To adjust the provision for uncollectible accounts (rate of .27347%) following the adjustment to operating revenues for demand cost recovery.	\$ 9,089	\$ 9,089
	<u>Total Operations and Maintenance Expenses</u>	\$ 9,089	\$ 9,089
20	<u>General Taxes</u>		
	To adjust the utility license fee (rate of .3%) and gross receipts tax (rate of .302132%) for the adjustment to revenues for demand cost recovery.	\$ 20,011	\$ 20,094
	<u>Total General Taxes</u>	\$ 20,011	\$ 20,094

Piedmont Natural Gas Company  
South Carolina Operations  
Weighted Cost of Capital  
For the Twelve-Month Period Ended March 31, 2021  
Docket No. 2021-7-G

Settlement Schedule 3

Description	Capital Structure	Calculated Ratio	Regulatory Per Books				ORS As Adjusted				After Proposed Rates			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	2,962,103,053	47.80%	216,381,066	4.09%	1.96%	8,849,986	216,369,371	4.08%	1.95%	8,827,870	216,369,371	4.08%	1.95%	8,827,870
Common Equity	<u>3,234,877,902</u>	<u>52.20%</u>	<u>236,298,989</u>	<u>8.77%</u>	<u>4.58%</u>	<u>20,733,890</u>	<u>236,286,217</u>	<u>7.43%</u>	<u>3.88%</u>	<u>17,556,948</u>	<u>236,286,217</u>	<u>9.80%</u>	<u>5.12%</u>	<u>23,156,048</u>
Total	<u>6,196,980,955</u>	<u>100.00%</u>	<u>452,680,055</u>		<u>6.54%</u>	<u>29,583,876</u>	<u>452,655,588</u>		<u>5.83%</u>	<u>26,384,818</u>	<u>452,655,588</u>		<u>7.07%</u>	<u>31,983,918</u>